RECD S.E.C.
MAR 20 1992
144

003112
Q-30104
92071789

FORM 10Q

J 92-2275 15 8W

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

PROCESSED BY
MAR 24 1992

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended: January 31, 1992

Commission File Number 0-17502

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

INTERNATIONAL BARRIER CORPORATION

(Exact name of registrant as specified in its charter)

| DELAWARE | 52-1607578 |
|---|---|
| (State of other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification no.) |

R.D. 1
Claysburg, PA
16625

(Address of principal executive offices)

(814) 239-8525

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ( ) No ( X )

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

Common Stock $.01 par value, outstanding as of March 16, 1992 - 1,537,250 shares

INDEX

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

Consolidated Balance Sheets - January 31, 1992 and October 31, 1991

Consolidated Statements of Operations - 3 months ended January 31, 1992 and 1991

Consolidated Statements of Cash Flows - 3 months ended January 31, 1992 and 1991

Notes to Consolidated Financial Statements - January 31, 1992

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II - OTHER INFORMATION

SIGNATURES

INTERNATIONAL BARRIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Investments

Investments in marketable debt securities are carried at cost.

Inventories

Inventory of raw material is recorded at the lower of cost and replacement value. Work in progress and finished goods are recorded at the lower of cost or market, with market being determined on the basis of net realizable value. Cost is determined on the first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is provided on a straight-line basis over varying periods from five to twenty years.

Patents

Patent rights are stated at cost. Patents have been registered in Australia, Belgium, Canada, France, Great Britain, Greece, Japan, Spain, Sarawak, and the United States. Patents are pending in Germany, Malaysia, Singapore and Sabah. Costs are being amortized over the life of the patents (13 years on average).

Earnings per common share

Earnings per common share have been presented to give effect to the reorganization of the Company's common stock on October 26, 1988 (note 7). Earnings per common share have been calculated after deducting unpaid cumulative dividends on preference shares from net loss, and dividing by the weighted average of common shares outstanding during the year. The effect of the warrants and options have not been included as they are antidilutive.

PART I

FINANCIAL INFORMATION

INTERNATIONAL BARRIER CORPORATION

| CONSOLIDATED BALANCE SHEET<br>ASSETS | (unaudited)<br>January 31,<br>1992 | (audited)<br>October 31,<br>1991 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 4,395 | $ 51,548 |
| Investments in marketable securities (market value $506,000) | 500,000 | 500,000 |
| Trade accounts receivable | 42,337 | 95,080 |
| Inventories | 129,612 | 130,101 |
| Prepaid expenses | 7,500 | 7,500 |
| Total Current Assets | 683,844 | 784,229 |
| FIXED ASSETS (note 3) | 3,021,139 | 3,084,754 |
| PATENTS (note 4) | 242,181 | 242,447 |
| TOTAL ASSETS | $ 3,947,164 | $ 4,111,430 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Demand loan | $ -- | $ -- |
| Trade accounts payable | 1,049,455 | 1,007,688 |
| Current portion of long term debt (note 4) | 2,402,872 | 2,402,872 |
| Total current liabilities | 3,452,327 | 3,410,560 |
| LONG TERM DEBT (note 6) | 50,101 | 53,692 |
| STOCKHOLDERS' EQUITY (note 7) | | |
| Capital stock | | |
| Preferred stock, $.01 par value; 200,000 shares authorized, 300 Series A shares outstanding | 3 | 3 |
| Common stock, $.01 par value; 4,000,000 shares authorized, 1,537,250 shares outstanding | 15,372 | 15,372 |
| Additional paid-in capital | 5,463,480 | 5,463,480 |
| Deficit | (5,034,119) | (4,831,677) |
| Total stockholders' equity | 444,736 | 647,178 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $3,947,164 | $4,111,430 |

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL BARRIER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Three Months Ended January 31

| | (unaudited) 1992 | (unaudited) 1991 |
|---|---|---|
| Sales | $45,340 | $513,644 |
| Cost of goods sold | 110,886 | 460,091 |
| Gross Profit (loss) | (65,546) | 53,553 |
| Expenses | | |
| Selling, general and administrative expenses | 87,463 | 106,727 |
| Interest and bank charges | 52,337 | 58,521 |
| Interest income | (2,904) | (8,750) |
| Foreign exchange loss | | |
| | 136,896 | 156,498 |
| Profit (loss) before income taxes | (202,442) | (102,945) |
| Income taxes | 0 | 0 |
| NET INCOME (LOSS) FOR THE PERIOD | ($202,442) | ($102,945) |
| NET INCOME (LOSS) PER COMMON SHARE | ($0.13) | ($0.07) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 1,537,250 | 1,537,250 |

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL BARRIER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
For Three Months Ended January 31

| | (unaudited) 1992 | (unaudited) 1991 |
|---|---|---|
| OPERATING RESULTS | | |
| Net loss for the period | ($ 202,442) | ($102,945) |
| Adjustments to reconcile net loss for the period to net cash provided by operating activities | | |
| Depreciation and amortization | 67,625 | 67,625 |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in accounts receivable | 52,743 | (64,567) |
| Decrease (increase) in inventories and prepaid expenses | 489 | (387,359) |
| Increase (decrease) in accounts payable | 41,767 | 560,802 |
| Net cash provided (used) by operating activities | (39,818) | 73,556 |
| INVESTING ACTIVITIES | | |
| Sale (purchase) of marketable securities | 0 | (8,750) |
| Expenditures for license costs and patents | (3,744) | (5,641) |
| Net cash used for investing activities | (3,744) | (14,391) |
| FINANCING ACTIVITIES | | |
| Proceeds from (repayment of) long term debt | (3,591) | (5,134) |
| Proceeds from (repayment of) demand loan | 0 | (62,084) |
| Net cash provided by (used for) financing activities | (3,591) | (67,218) |
| DECREASE IN CASH POSITION | (47,153) | (8,053) |
| Cash position at beginning of period | 51,548 | 20,245 |
| CASH POSITION AT END OF PERIOD | $ 4,395 | $12,192 |

The accompanying notes are an integral part of these financial statements.

INTERNATIONAL BARRIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GOING CONCERN

These financial statements have been prepared on the going concern basis which assumes the realization of assets and the liquidation of liabilities in the normal course of business. The Company has had limited product sales and has suffered recurring losses from operations and has an accumulated deficit of $4,826,230 at October 31, 1991. The Company's ability to meet its current obligations is dependent upon its ability to achieve profitable operating and positive cash flow. This is dependant upon its ability to achieve a higher level of sales.

Management of the Company is actively pursuing sales opportunities and have changed the corporate structure of the Company by closing the Toronto, Ontario, and Washington, D.C. offices in 1990 and by reducing the selling, general and administrative expenses. All operations are carried on from the Altoona Fabricators Inc. plant location, in Altoona, Pennsylvania.

2. INVENTORIES

| | January 31, 1992 | October 31, 1991 |
|---|---|---|
| Raw materials | $53,385 | $53,385 |
| Work in progress | 28,028 | 28,028 |
| Finished goods | 48,198 | 48,688 |
| | $129,612 | $130,101 |

3. PROPERTY, PLANT AND EQUIPMENT

| | January 31, 1992 | October 31, 1991 |
|---|---|---|
| Land | $125,000 | $125,000 |
| Buildings | 1,972,572 | 1,972,572 |
| Machinery & equipment | 1,588,617 | 1,588,617 |
| Furniture | 127,830 | 127,830 |
| | 3,814,019 | 3,814,019 |
| Less accumulated depreciation | 792,880 | 729,265 |
| | $3,021,139 | $3,084,754 |

INTERNATIONAL BARRIER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. PATENTS

| | |
|---|---|
| Balance, October 31, 1991 | $242,447 |
| Legal costs 1992 | 3,744 |
| Amortization in 1992 | 4,010 |
| | $242,181 |

5. DEMAND LOAN

During 1991 and 1990 Mid-State Bank advanced demand loans to the Company from time to time. Each loan was secured individually by a single contract receivable. Demand loans reached a level of $104,077 in 1991 and $480,000 in 1990. Demand loans were nil at January 31, 1992.

6. LONG-TERM DEBT

| (a) Mortgage payable | January 31, 1992 | October 31, 1991 |
|---|---|---|
| Balance | $1,782,622 | $1,782,622 |
| Current portion | 1,782,622 | 1,782,622 |
| Long-Term portion | $ Nil | $ Nil |

The Mortgage payable, in the original amount of $1,800,000 bears interest at prime plus 1 1/2%. One-half of the mortgage made available and drawn down by the Company is secured by a first mortgage on the land and buildings. This portion of the mortgage, originally amounting to $900,000, is repayable in monthly installments of $10,802 (principal and interest commencing September 20, 1989 and maturing September 20, 2003. The remaining portion of the mortgage, amounting to $900,000, drawn on the same terms and conditions as described above was refinanced in fiscal 1990, by a loan from Pennsylvania Industrial Development Authority (PIDA) which bears interest at 4-1/2%, repayable within 14 years. This loan is secured by the land and buildings, subject to the first mortgage described above and a collateral interest in marketable securities of $450,000. In addition, this loan is secured by all machinery and equipment, subject to the first mortgage described above. In addition, this loan is secured by all machinery and equipment, subject to the equipment loan payable as described in note 6 (b). The interest rate may be increased after 3 years up to 12-1/2% if certain terms and conditions relating to employment levels are not met or if a material default occurs; current employment level projections have not been met. In March of 1990 both lenders approved a moratorium on principal payments for a period of up to 1 year. Revised principal and interest payments were to commence in April 1991. Subsequently PIDA approved an additional 6 months moratorium on principal which called for revised principal and

6. LONG-TERM DEBT (Continued)

interest payments to commence in November 1991. Subsequent to the expiration of the moratorium dates stated above, the Company has continued to remit interest only payments. This action constitutes a default under loan agreements which provide both lenders with contractual authority to demand immediate repayment of all outstanding principal. However, no such demand has been made to date. The Company is currently negotiating with both lenders on a repayment strategy. To reflect the uncertain circumstances regarding repayment terms, the Company has presented the total mortgage payable as currently due in the financial statements as of October 31, 1991.

On February 12, 1992, a nine month moratorium on principal payments was granted for the PIDA loan and revised principal and interest payments would commence August 1, 1992.

| (b) Equipment loan payable | January 31, 1992 | October 31, 1991 |
|---|---|---|
| Balance at October 31 | $670,351 | $673,942 |
| Current portion | 620,250 | 620,250 |
| Long-Term portion | $50,101 | $53,692 |

The equipment loan payable bears interest at prime plus 2%. During 1990, a portion of this loan amounting to $100,000 was replaced by a loan from the Pennsylvania Capital Loan Fund (PCLF) which bears interest at 5% and is secured by the machinery and equipment subject to a first mortgage, and a collateral interest in marketable securities of $50,000. The balance of the original equipment loan of $525,000 is secured by a first mortgage on all machinery and equipment. As part of the terms of this loan, the Company funded $275,000 of the purchase of equipment from working capital. The term of the original equipment loan is 7 years commencing September 20, 1989. The loan from the PCLF is repaid monthly over 5 years commencing October 1990. Based on preliminary approval for an SBA 504 loan in the amount of $620,000, the bank equipment loan extended and the amount outstanding as of October 31, 1990 was $81,967. Since the Company did not execute the SBA loan, the bank equipment loan is due and is considered a current obligation. In March of 1990 both lenders approved a moratorium on principal payments. Mid-State Bank and PCLF approved the moratorium for one year and 6 months, respectively; revised principal in interest payments commenced November 1990 for the PCLF but the principal moratorium was extended to October 31, 1991 for the Mid-State loans.

Subsequent to the expiration of the moratorium dates for the two Mid-State Bank notes stated above, the Company has continued to remit

6. LONG-TERM DEBT (Continued)

interest only payments. This action constitutes a default under the loan agreements which provide Mid-State Bank with contractual authority to demand immediate repayment of all outstanding principal. However, no such demand has been made to date. The company is currently negotiating with the bank on a repayment strategy. To reflect the uncertain circumstances regarding repayment terms, the Company has presented the total equipment loan payable from these two notes of $598,254 as currently due in the financial statements as of October 31, 1991.

7. STOCKHOLDERS' EQUITY

(a) During 1987, 100 Common shares were issued in exchange for amounts due to a shareholder of $50,000 and amounts owing to affiliates of $200,000.

(b) On December 1, 1987, the Company's Certificate of Incorporation was amended as follows:

300 shares of preferred stock were authorized. The shares have a par value of $1,000 each; bear a non-cumulative dividend entitlement of 5% until September 1, 1990; a cumulative dividend entitlement of 12% from September 1, 1990 to August 31, 1995 and a cumulative dividend entitlement of 15% from September 1, 1996. The shares are redeemable by the Company at par prior to September 1, 1990 and thereafter at par plus a premium of 2% per annum at a maximum of 20%. Each share is entitled to one vote. This was subsequently amended in 1988, see note 7(c) and (d).

On December 31, 1987, 300 shares of preferred stock were issued to common shareholders in exchange for amounts owing by the Company of $150,000, originating from working capital advances, and in exchange for amounts owing to affiliates in the amount of $150,000, also originating from working capital advances.

(c) On October 26, 1988, the Company filed an amendment to its Certificate of Incorporation, changing its name from United States Barrier Corporation to International Barrier Corporation and amending its capital stock as follows:

(i) the number of authorized preferred shares was changed from 300 shares of preferred stock, par value of $1,000/per share to 200,000 shares of preferred stock, par value $.01 per share, such stock to be issued in series with rights and entitlements to be determined from time to time by the Directors;

(ii) the number of authorized common shares was changed from 200

7. STOCKHOLDERS' EQUITY (Continued)

common shares, no par value to 4,000,000 shares of common stock, par value $.01 per share; and

(iii) 1,500,000 shares of Class A common stock, par value $.01 per share were created. The Class A common stock ranks equally with the common stock and will be entitled to one vote per share. Each of the issued and outstanding 200 shares of common stock of the Company were converted into 2,681.25 shares of common stock.

(d) The Directors have designated 300 shares of preferred stock as Series A preferred stock. The series A shares provide for cumulative annual dividends commencing December 31, 1988 of $50 per share until December 31, 1990, $120 per share thereafter until December 31, 1996 and $150 per share thereafter. The Series A shares are redeemable at the option of the Company at $1,000 per share until September 1, 1990 and thereafter at an amount that increases at the rate of $20 per year until the year 2000 when the redemption price is fixed at $1,200.

(e) In December 1988, 178,750 common stock were issued at par value in connection with the acquisition of patents and related assets.

(f) In December 1988, the Company completed its initial public share offering by issuing 822,250 common shares at $7.00 per share for net proceeds of $4,676,424. In connection with this transaction, the Company also issued 107,250 warrants, which includes the warrants described in note 7(g). Each Warrant carries the right to purchase one common share exercisable at the option of the holder up to a period of four years commencing December 16, 1989 at an exercise price of $8.40.

(g) In 1988, the Company issued $300,000 in short-term notes payable, bearing interest at 8% per annum. The notes payable, in the amount of $75,000 each, were secured by an assignment of proceeds of the life insurance policy on the life of a Senior officer of the Company. The notes were repaid on the date of the public offering. Stock purchase warrants to acquire 35,750 shares of common stock were issued to the lenders as part of this transaction (note7(f)).

(h) As at October 31, 1991, the cumulative preferred dividends in arrears were $75,000.

(i) Prior to October 31, 1988, the Company had two stock option plans for the benefit of its employees and Directors. An aggregate of 140,000 shares of Class A common stock have been reserved for issuance under the plans. On October 31, 1988, these plans were

7. STOCKHOLDERS' EQUITY (Continued)

terminated, with no options granted.

(j) In November 1988, the Company established two new plans, the 1988 Non-Qualified Stock Option Plan ("Plan") and the 1988 Incentive Stock Option Plan ("ISOP"). The Plan provides that no more than 50,000 shares in the aggregate of the Company's common stock may be sold pursuant to options granted under the Plan. Under the terms of the ISOP, the Company is authorized to grant incentive stock options to purchase up to an aggregate of 90,000 shares of its common stock. During 1989, 77,240 of the Plan options and 45,500 of the ISOP options were granted. These options can be exercised at $9.69. During 1990, the Company issued three stock purchase options for 60,000 shares. The exercise price of these options is $.50 per share, payable at time of exercise. As of October 31, 1991 no options were exercised.

8. INCOME TAXES

At October 31, 1991 the Company has operating loss carry forwards of approximately $3.7 million available to reduce future years' income for book and tax purposes until 2006. The effect of this loss carry forward has not been reflected in the accounts.

The Company has not adopted Statement of Financial Accounting Standards No. 96 "Accounting of Income Taxes". The effect of implementation of this standard has not been determined. The Company plans to adopt the standard in accordance with the required implementation date.

9. SEGMENT INFORMATION

Substantially all of the Company's operations are based in the United States. With the exception of $380,000 of revenue in fiscal 1989, all product sales were made within the United States. As of October 31, 1991, substantially all of the Company's receivables are related to a state highway administration authority.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### Results of operations

The Company sold $45,340 worth of barrier components compared to approximately 2.5 miles of its median barrier product sold in the first quarter of 1991 resulting in a decrease of sales of $468,304.

Cost of sales were $110,887 in the first quarter of 1992. Cost of goods exceeded sales for the first quarter of 1992 because of the indirect costs of maintaining the Atloona factory. The factory was designed to accommodate 15 miles per quarter. With less than one mile of sales the unabsorbed indirect costs exceeded the gross profit. All costs of operating the plant including depreciation of the plant and equipment are included in cost of sales. Cost of sales in 1991 was 90% of sales for 1991.

Selling, general and administration expenses decreased from $106,727 in the first quarter of 1991 to $87,463 in the first quarter of 1992. This reduction in costs is a result of the Company's scaled down operations. The depreciation for plant and equipment of $63,029 is included in cost of sales for 1992.

Interest cost in the first quarter of 1992 was $52,337, compared to $58,520 in the first quarter of 1991. The Company's interest costs are lower in 1992 due to having no demand bank loan during the first quarter of 1992.

The Company has a loss carry forward for tax purposes of approximately $3.7 million available as of October 31, 1991 and consequently will be entitled to reduce income taxes on future earnings.

On Friday, March 13, 1992 Robert L. Hurd was elected President and Chief Executive Officer of International Barrier Corporation, succeeding Kenneth W. Harrison, the founder of the Company, who held these positions.

### Liquidity and Capital Resources

As of January 31, 1992 the current asset to current liability ratio is 0.20 compared with 0.75 as of October 31, 1991. The Company has a shortfall of working capital of $2,768,483 as of January 31, 1992 compared to a shortfall of $569,101 as of January 31, 1991. The large increase in working capital shortfall is largely due to the Company including amounts previously shown as long term loans as currently due because certain long term loans are technically in default. See note 6 in the Notes to the Financial Statements included herein. The Company has no orders for its barrier system as of the date of this report, although the Company has been specified on a 4 mile section of highway in Ontario scheduled for installation in 1992. This possible order is still being pursued by the Company.

Unless the Company receives orders for its barrier system or additional funds in the form of loans or equity it will not be able to meet its obligations in the second quarter of 1992.

## PART II

## OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

A legal dispute between the Company and a trucking company has been resolved by decision in favor of the trucking company. The Company is now considering its options, including the possibility of appeal.

**ITEM 2. CHANGES IN SECURITIES**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

See note 6 in the Notes to Financial Statements, herein.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

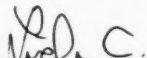
None

SIGNATURES

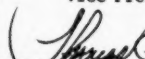
Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL BARRIER CORPORATION

(Registrant)

By 

Lincoln C. Cobb
Vice President

By 

Thomas G. Ryan
Vice President

Date: March 16, 1992